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The Role of Sharia Banks in Sustainable Development During Indonesia's Economic Recovery Post-Covid-19

Diah Dharmayanti[1], Abdul Aziz[2], Joko Suhariyanto[3], Yusuf Setyadi[4]

[1]Universitas Siber Asia, Indonesia
[2]IAIN Syekh Nurjati Cirebon, Indonesia
[3]Universitas Siber Asia, Indonesia
[4]Universitas Siber Asia, Indonesia

Abstract

Since Covid-19 appeared three years ago an undeniable economic recession has hit the world including Indonesia, the economy has slid drastically to minus 5 in 2020-2021. However, it finally revived after the new normal adaptation era in 2022, GDP showed a positive trend. This is of course because the role of Sharia banking, especially in assisting the national economic recovery program, shows a significant level. Research using a qualitative approach through descriptive methods yields findings that Indonesia's GDP per capita increases from 57.3 in 2022 to IDR 62.1 million in 2021 (an increase of 8.6%) equivalent to USD 4,349.5. The PEN program in 2021 also experienced a ceiling increase of Rp. 658.6 T (88.4%) from a ceiling of Rp. 744.77 T which was higher than the previous year of Rp. 575.8 T. The role and contribution of Sharia banks in serving financing in the MSME sector is becoming thing done completely. This is the achievement of Islamic banking in the new normal adaptation time of the Covid-19 outbreak.

Keywords*:* *Sharia Banks; Sustainable Development; National Economy; New Normal; Coronavirus Pandemic*.

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Corresponding author:
abdul_aziz@syekhnurjati.ac.id

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1. Introduction

The onset of the Covid-19 pandemic in early 2020, coupled with significant social restrictions (PSBB), precipitated a sharp recession in the economic sector (Shaharuddin, 2020). Economic activity slowed down, businesses of all sizes faced failure, and GDP growth plummeted, forcing the government to implement urgent strategic measures to revive the national economy (Jayengsari & Husnaeni, 2020). A critical component of this recovery effort was the involvement of banking institutions, which were called upon to facilitate easier financing as stipulated in OJK regulation no. 03/2020 concerning the National Economic Stimulus (Yunita, 2020).

In this context, Sharia banking, which operates on the principle of profit-sharing, was expected to play a pivotal role in economic recovery by providing accessible financing solutions (Mardhiyaturrositaningsih & Janah, 2023). While this approach posed a risk of increased defaults, regulatory mandates required Islamic banks to support the rapid distribution of financing (Bilgin et al., 2021; Suyanto et al., 2022). The merger of three state-owned Islamic banks—Bank Sharia Mandiri, BRI Syariah, and BNI Syariah—into Bank Syariah Indonesia (BSI) further strengthened the sector's capacity to contribute to national recovery efforts (Idries et al., 2021).

Historically resilient to crises, as evidenced in 1998, 2008, and during the Covid-19 pandemic, Sharia banks have consistently demonstrated their ability to maintain stability and support economic growth (Ulfa & Purwanto, 2020; Fauziyah & Afkar, 2021). During the pandemic, while many economic sectors collapsed, Sharia banks not only remained stable but also gained increased trust from their customers (Nikmah et al., 2020; Cahyono et al., 2021). This research seeks to highlight the strategic role of Sharia banking in the National Economic Recovery program, illustrating how Sharia-based Ismaulinafinancing has become a vital tool for fostering economic resilience and growth during unprecedented challenges.

2. Literature Review

2.1 Global Islamic Bank

Khan (2010) said that basically Islamic banking globally in its operations is not just an 'interest-free' bank but more importantly a bank that involves ethical and moral issues and the most basic is campaigning for equality and economic justice. According to Aliyu et al. (2017) apart from maintaining ethics and morals as well as equality and economic justice, sharia banks must also be able to maintain a balance between institutions, society and environmental sustainability in accordance with sharia goals. Although globally, said Biancone et al. (2020) banking finance ethics is still second in the discussion of Islamic finance issues which still focus on banking, interest rates, conventional banks and portfolios, governance analysis and supervisory structures.

However, what is interesting for Sarker et al., (2019) is that Sharia banking is actually a pilot in China. Sharia banking and its financial institutions have instead become China's One Belt One Road initiative because countries based on Sharia finance in the Gulf and Arab countries have become China's main partners. Although there are still those who criticize the emergence of Sharia financial institutions as a result of religious sentiments. Call it PY Lai & Samers (2017) when looking at the presence of Sharia banking and finance in Malaysia, and Singapore. According to him, the existence of Sharia banking and finance in the both countries was nothing but mere ethnic political sentiment coupled with the internationalization of Islam in the 2000s. Meanwhile in Singapore it is not much different where a combination of Islamic neoliberal developments in the form of Islamic ordoliberalism is emerging.

In an article entitled "History of Sharia Banking and Finance", Islahi (2018) notes that the formal establishment of Islamic banking and finance began in the sixties of the last century. This is marked by the existence of interest-free lending societies in the late 19th century and the situation

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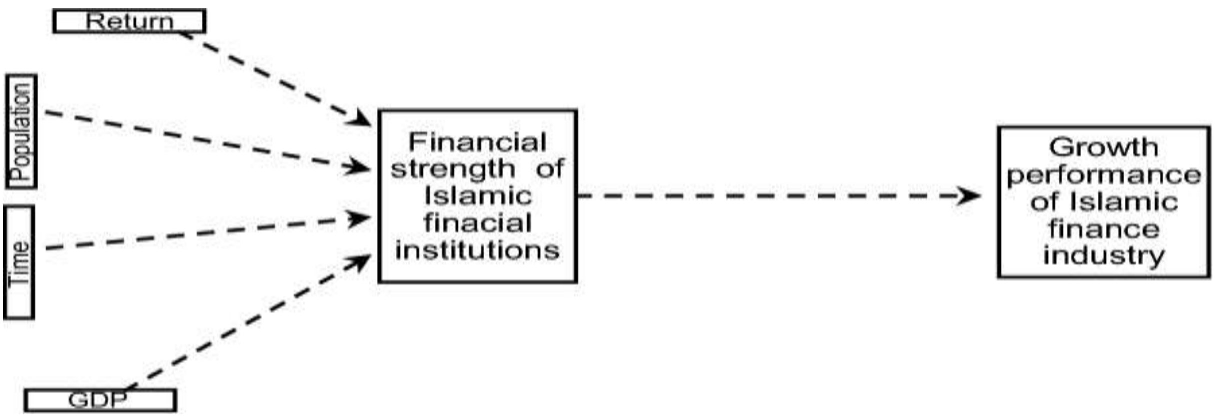
before the development of modern Sharia banks in the second half of the twentieth century. The aim of this establishment was an attempt to practice aspects of economic life in an Islamic way and it first appeared in the rural and agricultural economy and had nothing to do with the petrodollar or the oil boom in the Middle East as is commonly suggested. In Haseeb's (2018) note that over the last two decades Sharia finance and banking has received a lot of positive responses around the world because of its many successes in restoring the economic sector. This success also opened the door for Middle Eastern petrodollars and Islamic investment banking to all global, developing and developed markets. The Islamic banking and financial services industry has shown rapid growth over the past 10 years, having reached the milestone of over $2 trillion in value in 2015.

The potential is certain to grow globally, said Haseeb (2018) predicted because there are more than 1.5 billion Muslims around the world, and it is estimated that about one in four people on this planet practice Islam. In addition, there are large Muslim populations in every major landmass. Undoubtedly, Islam influences culture and social fabric worldwide; however, the framework of Islamic finance as a monetary event is fairly representative worldwide. According to Ahamat (2017) it was reported Sharia finance assets grew by more than 10% per year for the past decade, rising from about US$200 billion in 2003 to approximately US$1.8 trillion by the end of 2013. Despite this growth, Sharia finance and its associated products remain concentrated in the Gulf Cooperation Council (GCC) and Malaysia, accounting for less than 1% of global financial assets. The important role of Sharia Banking and Finance which carries the idea of the triple bottom line, which includes people, planet, and profit, has been introduced to Sharia banking and financial institutions through the equivalent standards for triple bottom line reporting in a community that is financially responsible and sustainable.

In addition, said Ali et al. (2019) in his research stated that countries in the Southeast Asian region, especially Brunei Darussalam and Malaysia, are in readiness to welcome the growth of increasingly advanced Sharia banking and financial institutions. It is proven that when entering the era of disruption marked by the presence of advanced technology, such as Blockchain, Internet of Things (IoT), Artificial Intelligence (AI), and Robotics in the form of FinTech, these two countries were ready and even offered various sharia-compliant services. Although it is recognized that the development of Sharia financial institutions in adapting to FinTech is still slightly behind conventional banking. Nonetheless, Nawaz (2019) views that Islamic financial institutions and banking are quite encouraging for their growth. He conveyed this while conducting research in Pakistan with the strength of Islamic financial institutions which are based on returns, population, time, and GDP which greatly affect the deveploment of the performance of the Sharia financial industry (see Figure 1).



Source: Nawaz (2019)

Figure. 1. Factors Effecting to the Performance Growth of the Islamic Finance Industry

At Pakistan, said Riaz et al. (2017) Islamic banking always gets a positive response from its customers. Not only because in Pakistan the most of the population is Muslim, but because Islamic finance and banking have really proven to help economic growth. Karimu et al. (2022) in an article entitled "Islamic Banking and Finance in Africa", stated that the OIC as a cooperative organization of Islamic countries is obliged to socialize the inclusion of Sharia finance and banking about all regions of the world, including in Sub-Saharan Africa (SSA). According to him, the use of Sharia banking and financial systems in some Organization of Sharia Cooperation (OIC) nations in the SSA region accelerates financial inclusion, which is highly required to stimulate financial inclusion in the OKI SSA sub-region.

In addition to socializing the inclusion of Sharia finance and banking in the SSA area, in a country where the majority adheres to Hinduism in India, according to Islam & Rahman (2017) in their research, it was stated that initially Islamic banking was not responded to due to the public's ignorance of Islamic bank operations, when the public was already familiar with Islamic banking. what is an Islamic bank, in fact the most of respondents are willing to use Islamic banks. In short, it is globally recognized that the Sharia banking business plays a vital role in the economy growth of the people, plays an important role in economic development, and has added values, and is inclusive (Marlina et al., 2021).

1.2 Indonesian Sharia Banks

Hidayati et al. (2017) it has been argued that the presence of a dual banking system in Indonesia offers the best opportunities for the development of the Sharia banking industry in this country. The Sharia banking business in Indonesia has experienced an increase in the number of banks and branches, because the activities of Sharia banks have declined in recent years. According to him, based on quarterly records from DEA (Data Envelopment Analysis) in Indonesia, there are currently ten Sharia Commercial Banks (BUS) and fifteen Sharia Business Units (UUS). Reports indicate that there are Sharia Commercial Banks (BUS) and Sharia Business Units (UUS) operating in Indonesia. yet operated effectively in their intermediary rule.

The Sharia banking in Indonesia, according to Suryani (2012 in Marlina et al., 2021) started with the establishment of Bank Muamalat Indonesia (BMI) in 1991, then was joined by other private banks as well as government-owned banks which were initially only Sharia Business Units (UUS) however, Indonesia's Sharia finance business was ranked sixth in the 2018 Global Sharia Finance Report, after Malaysia, Iran, Saudi Arabia, UAE, and Kuwait. In 2018, the Indonesian sharia financial business scored 24.14 out of 100 on the index scale and was ranked sixth in the world, according to the GIFR 2018.

The expansion of Sharia banking in Indonesia is increasing every year, although the market for Sharia finance is relatively new in the country (Marlina et al., 2021). This progress indicates the advancement of Islamic banking and non-banking financial institutions, such as Islamic insurance and Islamic mutual funds, amongst others. OJK recorded in 2020 that there are 14 commercial banks which operate based on Sharia principles, and 20 Sharia banks in Indonesia. Furthermore, there are 164 Sharia Rural Banks and Sharia Business Units. This shows the growth during the period from 2002 to 2021.

The expansion of Sharia-compliant banking and its enduring strength during economic crises, such as the one in 1998, are inherently intertwined, causing a number of national banks to bankrupt. Precisely post crisis, a number of new Islamic banks emerged, such as Mandiri Syariah Bank (now BSI), Islamic banks such as Bank Sharia Permata Bank, Sharia Mega Bank, Sharia BRI (now BSI), Bukopin Sharia Bank, and others. Utama (2018) states in their study, Sharia banking institutions can

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two factors that greatly influence its growth and development, namely internal, and external factors. Internally, Sharia banks operate on a profit and loss sharing system rather than using a usury-based system. Externally, the implementation of the Sharia banking system is supported by legal certainty provided by the government through Law Number 21 of 2008.

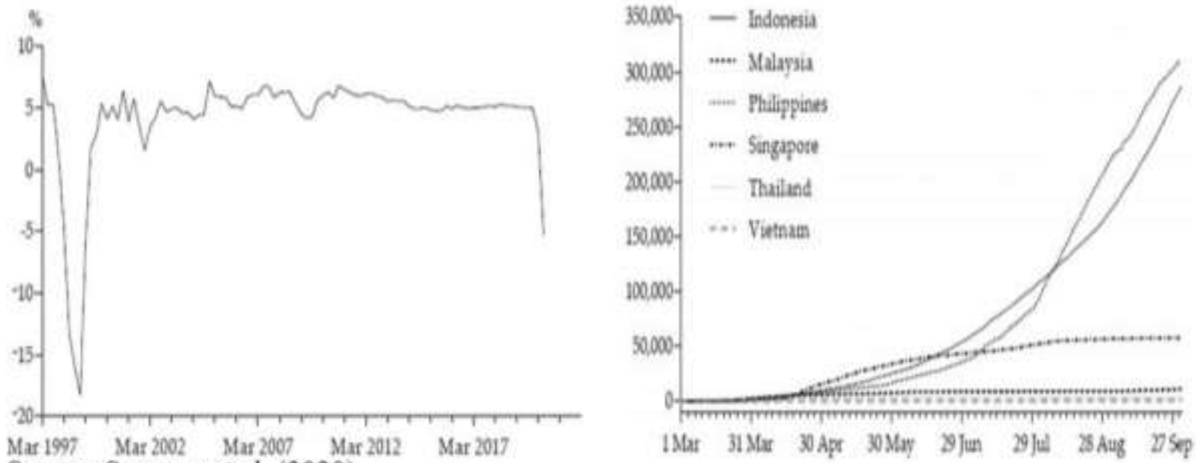
However, it cannot be denied that apart from Bank Muamalat Indonesia (BMI), Islamic banks are still based on conventional banks, said Nugroho et al. (2017) in terms of capital, only Mandiri Sharia Bank (now BSI) is the only Sharia bank that fulfills capital ownership with a Level III, Bank Business Category (Book Three), and is also a subsidiary of Mandiri Bank (bank of conventional), prior to spin off. Therefore, conventional banks are important to meet the capital requirements to improve the Sharia banking industry. With capital that still depends on conventional banks, coupled with a number of bad loans, it causes a lack of public trust in Sharia banks. An alternative to increasing capital and public trust is government policy to support Sharia banks to become independent.

Rusydiana and Sanrego's (2018) research reported that several Islamic banks selected in their survey, such as Bank Muamalat Indonesia (BMI) and Sharia Panin Bank, showed very good development as both were positioned in the first quadrant. Meanwhile, other banks, namely Mandiri Sharia Bank (now BSI), Sharia Maybank, and Sharia Bukopin Bank, were rated as good in the second quadrant; Bank Rakyak Indonesia Sharia (now BSI), and Sharia BCA are in third place; and Syariah Sharia Mega Bank, Sharia Victoria, Sharia Indonesia Countries Bank (now BSI), and Syariah Sharia Jabar-Bante Bank (BJB) are in fourth place in a row. For sharia banks that are at a low MSI level, they have critical policies that are in accordance with the five principles of maqasid sharia.

Hudaefi & Badeges (2021) who in their research questioned maqasid sharia on Sharia banking performance in Indonesia: a knowledge discovery via text mining", explained that information related to maqashid al-Syariah from IB reports can be measured both quantitatively mathematical and qualitative. Maqasid sharia is measured mathematically, and represents relevant knowledge about how maqasid sharia is informed practically through digital text in assessing the performance of Islamic banks in Indonesia. In other words, the development of Islamic banking in Indonesia is increasingly showing improvement and good management supported by FinTech and clear performance measures.

1.3 Sustainable Development in the Era of National Economic Recovery

Even though the Covid-19 pandemic was still going on in the middle of 2020 and the economic conditions were in a state of shock, President Jokowi stated that Indonesia must be ready to enter a new chapter, namely a new era of adaptation. Conditions of concern since the crisis in 1998, according to Sparrow et al. (2020) maybe in 2020 to be precise in the second quarter GDP will show a drastic decline to minus 5.3% (see Graphs 2a & 2b). Coupled with the increase in cases of contamination by Covid-19 until October, it was increasing compared to neighboring countries.



Source: Sparrow et al. (2020)

Fig. 2a and 2b Development of PDB

From Graphs 2a and 2b above, it shows that the condition of GDP is declining and cases of Covid-19 infection are the highest in the Southeast Asia region. However, the government immediately proposed a national economic recovery package (PEN) program which aims to facilitate consumption, overcome poverty, and joblessness which have declined drastically. In the writings of Sparrow et al. (2020) stated quarterly (YoY) GDP growth from 2019 to 2020, categorized by sector and expenditure. The sectors most affected were transportation and storage which down by over 30% in June 2020 YoY, and accommodation and restaurants which were down by 22%. The business services sector, manufacturing and the wholesale and retail trades were also affected, although to a lesser extent. The reduction in the transport and storage sector is not surprising given that direct transport has been disrupted due to reduced travel from people working from home and reduced overall mobility due to social distancing and large-scale travel restrictions (BPS, 2020).

According to him, all sub-sectors experienced contraction, and railways transportation experienced the biggest falls (80 % and 64 % each), followed by strorage, and transportation help services. Despite the transportation industry contributed it's less than 4.0% of the total GDP, accounted the biggest contribution of all sectors to the 5.3% decline in GDP is a quarter of that. (see Table 1). Indonesia's response package, as a percentage of GDP, said Beatty et al. (2020) is far smaller than package of many wealthy nations. For instance, Japan has allocated 21 % of its GDP in response, while the United States has allocated 12 % and Australia has allocated 10 %. In this area, the Indonesian reaction is insignificant compared to Thailand (9.6 % of GDP); however, it is comparable to Vietnam (3.6 %) and the Philippines' (3.9 %) responses. It is essential to be cautious when contrasting the extent of financial stimulus packages among different countries. as Covid-19 infection rates, limitations on social mobility and their impact on the economy vary widely. However, as per Kacaribu (2020), the contrasting proportion of rich and poor nations it is evident and can be partly explained for by the contrast in borrowing abilities and mobilization of resources within their own boundaries. Indonesia's taxable population is comparatively limited, and the country's yearly income from taxes is approximately 12% of the Gross Domestic Product (GDP), which is estimated to decrease to less than 10% in the current year.

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Table 1 The decline in the GDP in the second quarter

	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020
Gross domestic product	5.1	5.1	5.0	5.0	3.0	–5.3
By expenditure						
Household consumption	5.0	5.2	5.0	5.0	2.8	–5.5
Government consumption	5.2	8.2	1.0	0.5	3.8	–6.9
Investment	5.0	4.6	4.2	4.1	1.7	–8.6
Exports	–1.6	–1.7	0.1	–0.4	0.2	–11.7
Imports	–7.5	–6.8	–8.3	–8.1	–2.2	–17.0
By sector						
Agriculture, forestry and fisheries	1.8	5.3	3.1	4.3	0.0	2.2
Mining and quarrying	2.3	–0.7	2.3	0.9	0.5	–2.7
Manufacturing	3.9	3.5	4.1	3.7	2.1	–6.2
Utilities						
Water supply, sewerage, waste disposal, and recycling	9.0	8.3	4.9	5.4	4.6	4.6
Electricity and gas	4.1	2.2	3.8	6.0	3.9	–5.5
Construction	5.9	5.7	5.7	5.8	2.9	–5.4
Wholesale and retail trade	5.2	4.6	4.4	4.2	1.6	–7.6
Transport and storage	5.5	5.9	6.7	7.6	1.3	–30.8
Accommodation and restaurants	5.9	5.5	5.4	6.4	2.0	–22.0
Information and communications	9.1	9.6	9.2	9.7	9.8	10.9
Services						
Financial and insurance	7.2	4.5	6.2	8.5	10.6	1.0
Real estate	5.4	5.7	6.0	5.9	3.8	2.3
Business services	10.4	9.9	10.2	10.5	5.4	–12.1
Public administration, defence and mandatory social security	6.4	8.9	1.9	2.1	3.2	–3.2
Education services	5.6	6.3	7.8	5.5	5.9	1.2
Health care and social work	8.6	9.1	9.2	7.8	10.4	3.7
Other services	10.0	10.7	10.7	10.8	7.1	–12.6

Source: Sparrow et al. (2020)

According to Sparrow et al., (2020) that in the economic recovery package it is seen that the largest component is social protection, worth nearly Rp204 trillion to encourage consumption and reduce the impact of poverty Because of the economic decline. The PEN program aims to support the private sector by providing business incentives worth IDR 124tn through tax deductions and IDR 54tn for corporate financing. The government has assigned IDR 121tn to support micro, small, and medium enterprises (MSMEs), primarily providing assured working capital and interest rate subsidies. A poll conducted by Olivia et al. (2020) in August discovered that sectoral and regional governments had IDR 106tn budget, of which IDR 18tn was set aside for job creation and public works projects. The main methods of distributing social protection packages include existing initiatives like the Family Hope Program (PKH), food assistance programs such as Staple Food Cards and Basic Food Social Assistance, and the Village Cash Assistance program (BLT). Additionally, the government launched a new Pre-Employment Card and allows discounts on electricity bills.

Although the collection of software is comprehensive, and the packages were created. to reduce poverty in times before Covid-19, not during the pandemic. Most programs are focused on helping impoverished communities and rural areas, rather than middle-class and urban households that have been impacted by the Covid-19 pandemic. Moreover, the system for identifying the target beneficiaries is based on a database of social welfare information (DTKS), which has been created over the past decade (see Table 2).

Table 2 National Economic Recovery Sector

	Allocated in 2020	Realised in 2020		Allocated in 2021
Program	Rp billion	Rp billion	%	Rp billion
Social protection	203.9	159.7	78.3	110.2
Conditional cash transfer program (PKH)	37.4	36.3	97.0	(PKH; basic food support; pre-work program; BLT)
Basic food support	43.6	34.0	77.9	
Social assistance (Jabodetabek)	6.8	4.5	66.3	
Social assistance (non-Jabodetabek)	32.4	25.5	78.8	
Pre-work program	20.0	19.9	99.4	
Electricity discount	6.9	7.0	101.0	
Logistical/foods/basic foods	25.0	5.7	22.7	
Village Fund cash transfer (BLT)	31.8	12.9	40.6	
Wage subsidy		14.0		
Business incentives	120.6	28.3	23.5	20.4
Government-borne income tax	39.7	2.1	5.3	(government-borne income tax; income tax exemption on imports; tax deduction)
Income tax exemption on imports	14.8	6.6	45.0	
Tax deduction	14.4	10.1	69.9	
VAT return	5.8	2.8	47.4	
Corporate income tax rate reduction	20.0	6.8	34.1	
Other stimulus	26.0			
Corporate financing	53.6	0.0	0.0	14.9
Job placement fund	3.4			(state equity participation for EximBank (LPEI) and SOEs; guarantee for loss limit)
State equity participation	20.5			
Working capital investment	29.7			
Sectoral and regional governments	106.1	27.6	26.0	136.7
Job creation schemes	18.4	13.5	73.4	(job creation schemes; tourism; food security; ICT development; regional loan facility; industrial zone; recovery reserve)
Housing incentive	1.3	0.7		
Tourism	3.8			
Regional incentive fund	5.0	4.0		
Physical special allocation fund	8.7	7.3	83.8	
Regional loan facility	10.0			
Diversification reserve (Islamic boarding school)	58.9	2.0		
Micro, small and medium-sized enterprises (MSMEs)	123.5	90.4	73.2	48.8
Interest subsidy	35.3	3.7	10.5	Interest subsidy; financing support for MSMEs; fund placement; guarantee for loss limit; recovery reserve
Fund placement	78.8	63.2	80.2	
Guarantee fee	5.0	0.2		
Working capital guarantee	1.0			
Government-borne final income tax	2.4	0.4		
Investment financing for cooperatives	1.0	1.0	100.0	
Productive social assistance		21.9		
Health	87.6	25.9	29.6	25.4
Expenditure for Covid-19 handling	65.8	15.6	23.6	Covid-19 vaccine; immunisation; laboratories; insurance premium subsidy
Incentives for paramedics	5.9	3.3	55.6	
Death compensation	0.3	0.03	9.7	
National health insurance fee	3.0	1.2	39.7	
Covid-19 task force	3.5	3.2	92.0	
Tax incentives in health	9.1	2.7	29.4	
Total	695.2	332	47.7	356.4

Source: Sparrow et al. (2020)

The database has been useful in enhancing the identification of social protection programs beneficiaries. However, it is unable to cope with significant disturbances and the resulting poverty

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trends. Specifically, it cannot recognize temporary alterations in households' well-being caused by individual events for example, unexpected loss of employment or serious health issues, as well as changes in financial circumstances are common. Moreover, the database has not been updated since 2015. According to a 2020 survey conducted by the World Bank, COVID-19 has made several families on lower-middle incomes may face sudden reductions in household income, particularly as 24% of breadwinners have lost their jobs. Java experienced most job losses, notably in urban zones, among people with upper secondary education or less and in the industrial and services sectors. Nearly two-thirds (around 64%) of employed people suffer a drop in earnings. Government aid is a crucial measure to cushion the impact of reduced food and non-food spending, according to 55% of survey participants. Social protection program databases struggle to keep up with swift changes in welfare status, causing more errors in excluding the intended beneficiaries. Sumarto (2020) has identified a pressing need to improve the flexibility of the social protection targeting system. For example, this could involve introducing an innovative information system. This could include the use of social registers that cover the 60% of the poorest population, social assistance programmes that can be implemented upon request (as in the case of the Pre-Employment Card programme) or community-based targeting (as seen in the BLT programme).

The effect of the Covid-19 outbreak on the economy was severe, prompting the government to adopt a more serious approach to managing it. Sparrow et al. (2020) highlighted that various PEN (National Economic Recovery) initiatives designed for MSMEs (Micro, Small, and Medium Enterprises) sometimes did not align with their specific needs. A survey conducted by the Central Statistics Agency (BPS) in July 2020, involving 25,300 micro and small businesses (UMKs) and 6,800 medium-large businesses (UMKs), revealed differing assistance requirements for these enterprises. During the pandemic, 70% of MSEs identified government support for working capital as a priority, while 40% of SMEs emphasized the need for electricity subsidies, relaxed loan payments, and deferred tax obligations. Both UMKs and SMEs requested a temporary electricity subsidy, which was not available at the time.

The Ministry of Finance (2020) should bear in mind that giving electricity discounts using PEN resources may lessen the financial load on companies faced with a crisis and streamline administrative procedures since the State Electricity Company (PLN) owns the current database. One of the major issues when implementing the PEN package is the minimal disbursement rate. Up to the 7th of October, only 48% of the designated budget had been paid out. The disbursements accelerated in the month of September, especially for social protection initiatives and support schemes for micro, small and medium-sized businesses, reaching rates of 78% and 73%, respectively. Yet, rates are much lower for the remaining components: The health package has a rate of 30%, sectoral and local government support has a rate of 26%, and business incentives have a rate of 24%. No funds, however, have been awarded for corporate financing.

3. Methodology

This study employed a qualitative approach with inductive-descriptive analysis and content analysis to explore the role of Islamic banking in the National Economic Recovery (PEN) during the New Normal adaptation period of the Covid-19 pandemic in Indonesia. The data used were secondary data collected from literature sourced from journals indexed in Sinta Dikti and reputable international journals, such as Elsevier (Scopus), Web of Science (WoS), and Sinta 1 and 2 (see Table 3). The literature selection was based on inclusion criteria that encompassed research relevant to the topic of Islamic banking's role in economic recovery and publications within the last 10 years to ensure relevance and currency. Exclusion criteria included studies lacking empirical data or those focusing on economic contexts outside of Indonesia. Additionally, statistics from the Central Bureau of

Statistics (BPS, 2020) and related survey reports were used to strengthen the content analysis conducted.

The data analysis process was carried out using open coding, where the main themes were identified from the collected literature. Each theme was then descriptively analyzed to illustrate the contribution of Islamic banking to PEN. The validity and reliability of the research findings were maintained through data triangulation by comparing findings from various literature sources and statistical data. Furthermore, an audit trail was applied to document each step in the analysis process to ensure transparency and accountability. The analyzed period spanned from 2020 to 2023, covering the peak of the pandemic to the new normal adaptation period, allowing the research findings to reflect the dynamic changes in the contribution of Islamic banking during this period.

Table 3. Source form Indexed Journals

Authors/Year	Title	Journal	Indexed	Explanation
Ascarya, A. (2021)	The role of Islamic social finance during Covid-19 pandemic in Indonesia's economic recovery	International Journal of Islamic and Middle Eastern Finance and Management	Scopus, WoS	This study discusses how Islamic social finance has contributed to Indonesia's economic recovery during the COVID-19 pandemic.
Ahamat, A. (2017)	Is Islamic banking and finance doing enough? Shaping the sustainable and socially responsible investment community	Asian Social Science	Scopus, WoS	The article discusses whether Islamic banking is adequately contributing to sustainable and socially responsible investments.
Aliyu, S., Hassan, M. K., Mohd Yusof, R., & Naiimi, N. (2017)	Islamic banking sustainability: A review of literature and directions for future research	Emerging Markets Finance and Trade	Scopus, WoS	This literature review assesses the sustainability of Islamic banking and provides suggestions for future research directions.
Bilgin, M. H., Danisman, G. O., Demir, E., & Tarazi, A. (2021)	Economic uncertainty and bank stability: Conventional vs. Islamic banking	Journal of Financial Stability	Scopus, WoS	The article compares the stability of conventional and Islamic banks during periods of economic uncertainty.
Biancone, P. P., Saiti, B., Petricean, D., & Chmet, F. (2020)	The bibliometric analysis of Islamic banking and finance	Journal of Islamic Accounting and Business Research	Scopus, WoS	This study conducts a bibliometric analysis to explore the trends and patterns in Islamic banking and finance research.
Cahyono, E. F., Rani, L. N., & Mardianto, M. F. F. (2021)	Determinants of Indonesian Conventional and Islamic Bank Depositor Trust During the Covid-19 Pandemic	Journal of Islamic Monetary Economics and Finance	Sinta Dikti, Scopus	The paper explores the factors affecting depositor trust in conventional and Islamic banks during the COVID-19 pandemic in Indonesia.

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Haron, R., Barre, G. M., & Othman, A. H. A. (2021)	Zakat and the performance of Islamic banks: empirical evidence	Handbook of Research on Islamic Social Finance and Economic Recovery After a Global Health Crisis	Scopus, WoS	The study provides empirical evidence on the relationship between zakat and the performance of Islamic banks.
Hudaefi, F. A., & Badeges, A. M. (2021)	Maqāṣid al-Sharī ʻah on Islamic banking performance in Indonesia: a knowledge discovery via text mining	Journal of Islamic Marketing	Scopus, WoS	The paper applies text mining to explore the performance of Islamic banking in Indonesia from the perspective of Maqāṣid al-Sharī ʻah.
Mardhiyaturrositaningsih, M., & Janah, R. (2023).	Strategy of Islamic Rural Banks Improving Financial Performance During the Covid-19 Pandemic.	*Amwaluna: Jurnal Ekonomi dan Keuangan Syariah*	Sinta Dikti	Bank Pembiayaan Rakyat Syariah memandang pandemi Covid-19 sebagai tantangan dengan beberapa aspek prioritas pengendalian.
Anggarini, D. T., & Rakhmanita, A. (2020), and others.	Government Policies for Economic Recovery and Handling COVID-19 Virus in Indonesia	Moneter-Jurnal Akuntansi Dan Keuangan	Sinta Dikti	The paper reviews government policies aimed at economic recovery and handling of the COVID-19 pandemic in Indonesia.

Source: Modified from various sources

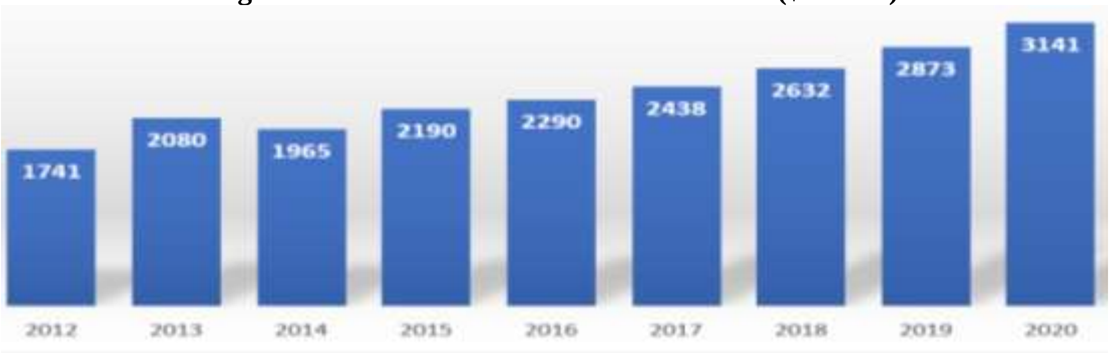
4. Results And Discussion

4.1 The Role of Islamic Banks in Sustainable Development in the National Economic Recovery Era

It is clear that the Covid-19 pandemic has affected nearly every country in the world., including Southeast Asia, which of course has had an impact on the economic sector. So, Sharia banking institutions, especially as an important pillar in a country's economy, especially in stabilizing the monetary aspect and supporting the economy through the function of creating liquidity and transforming risk (Haron et al., 2021). The role of Sharia banks in increasing economic growth in a country is very clear. For example, countries that are members of the GCC, such as Bahrain, UAE, Kuwait, Oman, Qatar and Saudi Arabia in a survey noted that there is a relationship and impact on banking development between Islamic banks and economic growth. Where banking is able to encourage growth through supply-leading financial intermediaries is very important for growth (Schumpeter, 1911). In fact, the role of banking and economic growth is intertwined, even though it is still dominated by conventional banks (Rousseau and Wachtel, 1998). Meanwhile, during the Covid-19 pandemic, statistical data shows that size, liquidity, capital adequacy, credit risk, and cost management have had for years now, there has been a significant and optimistic connection between Islamic banks and economic growth, especially after the global financial crisis, (Shaharuddin, 2020).

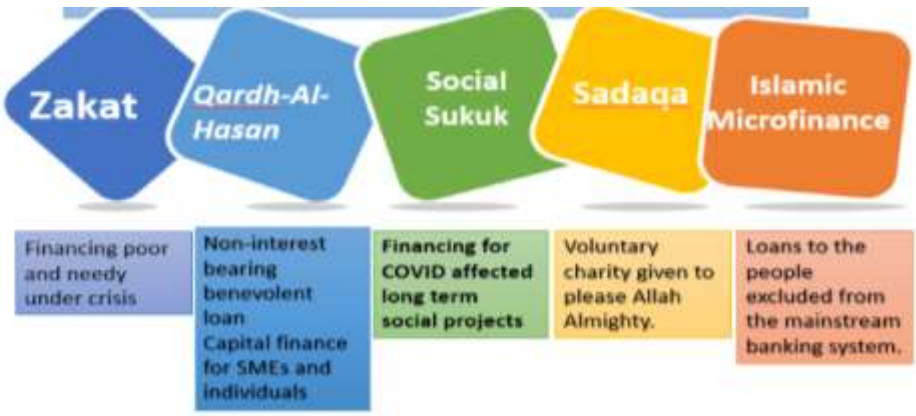
The Sharia financial system has been affected by the COVID-19 pandemic, and specifically Islamic banking, another opportunity to showcase its resilience, increase its assets, offer social financial services, and prove itself as a genuine rival to the traditional financial system. (Hassan et al., 2020; Rabbanii et al., 2021). It is argued that Islamic finance will play a vital role as an open social innovation in the financial system after COVID-19 (refer to Figure 3). Islamic banking institutions' hidden strengths have been revealed by the COVID-19 pandemic (Hassan et al., 2020; Rabbani et al., 2020). Thus, Figure 3 illustrates the forthcoming Sharia Fintech ecosystem, in which all stakeholders, namely the government, clients, fintech companies, fintech developers, and Sharia finance institutions, have a part in surmounting the post-COVID-19 crisis.

Figure. 3. The Global Islamic Finance Assets ($ billion)



Source: World Bank Report (2020)

According to Sarea & Bin-Nashwan (2020) and Rabbanii et al. (2021) stressed the need for a new way of thinking in the money and financial system of the world to tackle the current crisis. sharia finance is using transactions without interest, which makes it an ideal solution for avoiding crises like the financial crisis and COVID-19 in an Islamic economy. The advantage of Islamic banking besides being a profit institution, is that it is also an Islamic social financial institution that has financial tools and services suitable for situations like this, for example, there's Zaka, Qardh-Hasan, Endowments, Sharia microfinance, Takaful Ta'awuni. Government fiscal and monetary policies, like initiatives aimed at helping the poor, can also help the vulnerable sections of society. And, after the global vaccination against the Covid-19 pandemic, many countries began to move quickly for economic recovery, including Islamic financial institutions, in this case Islamic banks, took part in responding to this. According to Rabbanii et al. (2021) Islamic banks are starting to shift from 'response' mode to 'recovery' mode moreover supported by FinTech to take advantage of their unique assets and skills to take advantage of this opportunity, Islamic banks in the long term must have 3 agendas, namely 1) support short-term emergency, 2) medium-term recovery, and 3) long-term recovery and resilience (see Figure 4).



Source: Rabbanii et al., (2021)

Gambar 4. The Covid-19 and Sharia Social Finance

According to Karim et al. (2019) what is meant by short term, medium term, and long term are as a period of less than one-year, medium term is defined as a period of one year to five years, and a period of more than five years is classified as long term. In Indonesia itself, in the context of national economic recovery, especially recovery in the monetary sector, said Anggarini & Rakhmanita (2020)

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that Bank Indonesia as the institutional parent of Islamic banks must look at the maintenance of macroeconomic stability, particularly in the financial sector to ensure that there is an adequate amount of money available in the economy and ensure smooth trade transactions without causing inflation. Various indicators are typically adopted to evaluate monetary policies, such as the money supply, inflation, interest rates, exchange rates and public opinions.

According to Sukirno (2012 quoted by Anggarini & Rkahmanita, 2020) highlighted that the interest rate can affect investment in the industrial sector - which drives production - while the exchange rate can impact product prices and production inputs. The interest rate and exchange rate are financial tools that impact the trade of industrial goods. The government can follow an expansionary monetary policy by increasing the money supply and can follow a contractionary monetary policy by reducing it. Meanwhile, said Mankiw (2013) in Anggarini & Rkahmanita, 2020) states that besides having to maintain monetary stability, banks must also exercise financial control by using expansionary and contractionary fiscal policies. Expansionary fiscal policies can boost national income and reduce unemployment rates. In contrast, contractionary fiscal policies reduce inflation and decrease the foreign balance of payments deficit.

Sharia banks, particularly those that have social tools like zakat, infaq, and endowments, could aid the government and the economy in recovering from the crisis. According to Ascarya (2021) Islamic banks can help more in carrying out their functions for national recovery such this initiative aims to save lives through medical aid funded by zakat-infaq and endowment waqf schemes. It also intends to create safety nets and programs to uplift struggling households, mainly through zakat infaq and boost business actors, particularly micro and small-sized enterprises. The initiative offers financial and business support, such as digital marketing tools funded by zakat-infaq-waqf schemes. Lastly, the initiative looks to save small microfinance institutions by establishing cash waqf and adopting financial technology and IICSF, primarily in sharia financial institutions that target MSEs.

On the other hand, Islamic banks during the new normal adaptation to the COVID-19 pandemic must mitigate risks earlier by strengthening liquidation, restructuring and changing strategic initiatives. One of them for state-owned banks is the merger of several Islamic banks into one bank so that they are effective in helping to handle liquidity due to the COVID-19 pandemic outbreak so as not to cause big losses for both the community and the nation (Nugroho3 et al., 2020).

4.2 Impact of Islamic Bank Involvement in Sustainable Development in the Era of National Economic Recovery in Indonesia

The national economic recovery package, or PEN, after the announcement of a new era of adaptation due to the impact of Covid-19, which has devastated all aspects of life, including the economic sector since April 2020, requires the support of various parties and the collaboration of all components of society. When referring to BI policies related to monetary stability, Islamic banks have the opportunity to be involved in this matter. Moreover, the Islamic economy with the involvement of Islamic finance in which Islamic Banks give priority to the real sector, including small and medium-sized enterprises (SMEs), and use Islamic economic institutions to support and drive growth in this sector. Islamic finance has captured a market share of 8.5%, and it is expected to keep expanding and developing. The COVID-19 outbreak has resulted in a decline in economic activity, particularly in the SME sector. The COVID-19 pandemic has caused significant impact on SMEs. Islamic economic institutions, including Islamic banks, can play a crucial role in reviving SME economic activities (Trimulato, 2021).

Islamic banks play a crucial role in national economic recovery. Islamic financing recorded an impressive growth of 349.34 percent for income. Islamic Micro Finance Institutions (LKMS) witnessed a growth of financing increased by 11.75 percent, whereas Sharia Peer-to-Peer (P2P) lending institutions saw a small decline in assets of 0.05 percent. Social institutions observed an increase in collecting social funds.at the Indonesian Zakat Initiative (IZI) by 48.08 percent, and the distribution of social funds the National Amil Zakat Agency (BAZNAS) has seen a significant increase of 114.27 percent (Trimulato, 2021). The Sharia finance institutions are vital in the recovery of the real Micro, Small, and Medium Enterprises (MSME) sector amid the Covid-19 pandemic. Their efforts involve enhancing MSMEs' financial strategies, assisting financial customers, offering relief to affected customers, participating in online marketing for customer products, maximizing profit sharing, reinforcing partnerships, and dispersing social capital for SME economic activities.

The Sharia banks in Indonesia stand side by side with their conventional counterparts in the dual banking system, in addition to Bank Syariah Indonesia (result of the merger of BSM, BNI Syariah and BRI Syariah) together with the central bank aiming to achieve price stability in the economy by using conventional and sharia monetary instruments in a dual monetary system. In terms of performance, the cointegration relationship in the output and inflation models. Long-term convergence can be achieved to correct deviations in output and inflation through Islamic bank deposits and financing. However, the short-term effect is only contributed by Islamic bank deposits on output. Islamic bank deposits do not contribute in the short term to inflation. Islamic bank financing does not have a short-term relationship with output and inflation. As a result, there has been a decrease in the effectiveness of the contribution of Islamic bank financing to the economy, (Ponziani & Mariyanti, 2020).

Sharia banks in Indonesia, similar to traditional banks, though with variation also experience bad financing problems which directly have a significant impact on the banking system, the level of soundness of banks, and the national economy. However, overall, especially BUMIN's sharia banks, can manage these issues appropriately to reduce risks and ensure the progression of the sharia banking system. Managing problem financing is highly significant, not only to complement the settlement of a firm's outstanding debts and receivables but is also closely linked to the sustainability of the sharia banking industry as it significantly helps grow the Islamic economy in Indonesia (Supriyatni & Jurjamil, 2021). Islamic banks which are the core of the Islamic financial system play a role in encouraging entrepreneurship, this institution is expected to be at the forefront of serving the needs of the MSME sector and helping them from all kinds of financial constraints. Especially in the era of national economic recovery, the role of Indonesian Islamic banking is in serving the needs of MSMEs and various issues and challenges in achieving MSME financial inclusion, (Saifurrahman & Kassim, 2021).

Islamic banks, which have a dual role as profit institutions as well as social financial institutions, should also have a dual role, such as distributing zakat for socio-economic welfare in increasing economic growth and purchasing power of the Indonesian people and reducing the poverty rate that was implemented during the 2002-2019 period in Indonesia. Moreover, zakat which has been proven to contribute to reducing poverty before the Covid-19 pandemic can be used as a model for national economic recovery in Indonesia after Covid-19, (Suleman et al., 2021). Due to the unprecedented COVID-19 pandemic which has shocked and affected us all, spread throughout the world, including Indonesia, the impact caused by this crisis needs to be taken seriously. Within the framework of Islamic economics and finance, including Islamic banks, there are several strategies that need to be implemented to overcome the effect of COVID-19 on society includes:

(1) The distribution of direct cash assistance from zakat and infaq funds allocated by social institutions;
(2) The reinforcement of the infaq programme that caters to diverse needs;
(3) Improving the waqf programmes that include cash contributions for social waqf projects, productive waqf, a combination of social-productive waqf or cash waqf-linked sukuk.

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(4) better financial support for small and micro businesses in the UMK sector;
(5) qardh al-hasan plan;
(6) supporting the growth of MSME businesses;
(7) improving understanding of Islamic economics and finance; and
(8) developing technology for Islamic finance.

Encouraging programs that employ Islamic financial tools, such as the Sharia banks and other sharia financial institutions, has the potential to rebuild the economic surplus and expedite the process of economic recovery. This will help reduce poverty and facilitate the attainment of income equality. Wealth (Iskandar et al., 2021). The social and economic impacts of the COVID-19 pandemic have significantly affected the overall well-being of communities. To help reduce poverty during the pandemic, the government has introduced several schemes, including increasing the involvement of sharia or Islamic economics. Indonesia's economy can derive significant strategic advantages from the contribution of the Islamic economy, both now and in the future. People believe that empowering the sharia economy, including sharia banks, is crucial for national economic recovery, as it reflects the community's support for Islamic economic principles. This sentiment is echoed by Islamic economic institutions, including banks, as noted by Khotimah (2022).

5. Conclusion

Managing the Covid-19 pandemic in Indonesia has been a complex and prolonged challenge. Despite initial hopes that the national vaccination campaign would lead to a smooth recovery, the situation has been complicated by issues such as the scarcity of essential goods and rising costs for public services. However, the Indonesian economy has shown resilience, with signs of recovery evident through various government policies, including the responsive national budget and the PEN program. Financial institutions, particularly Islamic banks, have played a crucial role in facilitating financing and supporting economic recovery efforts. Social financial institutions have also contributed significantly to poverty alleviation by distributing zakat, infaq, and alms to those in need, particularly MSMEs.

Author contribution statement

We, Diah Dharmayanti, Joko Suhariyanto, and Yusuf Setyadi, lecturers at Siber Asia University, collaborated with Abdul Aziz, a lecturer at IAIN Sheikh Nurjati Cirebon, on this research. Diah contributed to the English writing, Joko Suhariyanto and Yusuf Setyadi were responsible for data input and interpretation, while Abdul Aziz provided insights from the Islamic banking perspective, drawing on his background in Islamic economics.

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